



## STATE BOARD OF EQUALIZATION STAFF LEGISLATIVE BILL ANALYSIS

Date Amended:	<b>04/05/00</b>	Bill No:	<b>SB 2068</b>
Tax:	<b>Sales and Use</b>	Author:	<b>Solis</b>
Board Position:	<b>Support</b>	Related Bills:	<b>AB 1884 (Lowenthal)</b>

### **BILL SUMMARY:**

This bill would exempt from *state* sales and use tax the sale of any natural gas, electric, or fuel cell powered bus or truck for use exclusively in public transit, school bus, or public works service.

### **ANALYSIS:**

#### Current Law:

Under existing law, the sales tax is imposed on retailers for the privilege of selling tangible personal property at retail. The use tax is imposed upon the storage, use, or other consumption in this state of tangible personal property purchased from a retailer. Either the sales tax or the use tax applies with respect to all retail sales or purchases of tangible personal property, unless the sale or use is specifically exempted from tax. Current law does not contain an exemption for the sale or use of public transit or school bus service vehicles. Also, current law does not contain an exemption for the sale or use of low-emission or alternative fuel vehicles. Therefore, when a local public agency or a school district purchases a transit vehicle for use in their operations, tax applies to the purchase price of that vehicle.

The rate of tax currently applicable to sales of vehicles, and to sales of virtually any other type of tangible personal property not otherwise exempt, is made up of various components:

- 5 percent state tax allocated to the state's General Fund (Section 6051, 6051.3, 6201 and 6201.3).
- 1/2 percent state tax allocated to the Local Revenue Fund which is dedicated to local governments for program realignment (Section 6051.2 and 6201.2).
- 1/2 percent state tax allocated to the Local Public Safety Fund which is dedicated to local governments to fund public safety services (Section 35 of Article XIII of the California Constitution).
- 1 1/4 percent Bradley-Burns Uniform Local Sales and Use Tax which is allocated to cities and counties (Part 1.5, commencing with Section 7200).
- 1/8 to 1 1/4 percent Transactions and Use Tax which is allocated to special taxing jurisdictions in various counties and cities within the state (Part 1.6, commencing with Section 7252).

*This staff analysis is provided to address various administrative, cost, revenue and policy issues; it is not to be construed to reflect or suggest the Board's formal position.*

Proposed Law:

This bill would add Section 6368.8 to the Sales and Use Tax Law to provide a state tax exemption (6 percent) for the sale, lease, or purchase in this state of any natural gas, electric, or fuel cell powered bus or truck for use exclusively in public transit service, school bus service, or public works service. This bill would also provide that the following conditions must be met for the exemption to apply:

- The purchase or lease shall not be a required acquisition under zero-emission bus technology demonstration or acquisition requirements of the State Air Resources Board's transit bus regulations adopted February 24, 2000.
- Qualifying buses and trucks shall be certified to the ultralow emission vehicle or optional low-emission vehicle emission standards in effect for the year of manufacture, as applicable.

This bill would provide that the proposed exemption would not apply with respect to any tax levied under the authority of the Bradley-Burns Uniform Local Sales and Use Tax Law or the Transactions and Use Tax Law.

The bill would become operative on the first day of the calendar quarter commencing more than 90 days after the bill is enacted. The bill also contains language that repeals the proposed statute as of January 1, 2010.

Background:

Senate Bill 1006 (Ch. 990, Stats. 1989) added Section 6365.5 to the Revenue and Taxation Code. Section 6365.5 provided a sales and use tax exemption for the incremental costs on the sale of new low-emission motor vehicles as identified by the State Air Resources Board and sales of retrofit devices which have been identified and labeled in accordance with Section 43802 of the Health and Safety Code. Section 6365.5 contained a sunset date of January 1, 1995, and as of that date was repealed.

**COMMENTS:**

1. Sponsor and Purpose. According to the author's office, the California Natural Gas Vehicle Coalition is the sponsor of this bill. The purpose of this measure is to provide a tax incentive for public works and public transit authorities to update their public works and transit vehicle fleets from diesel powered vehicles to lower polluting type vehicles.
2. Summary of Amendments. Amendments contained in this version of the bill consist of extending the exemption to include the sale of use of any natural gas, electric, or fuel cell powered trucks used in public works service.
3. This bill could help decrease air pollution. Buses used for public transit or school bus service are essential tools for transportation needs in most communities. Until recently, these vehicles have primarily been diesel powered vehicles. Diesel powered vehicles have been shown to contribute to air pollution. However, alternative fuel vehicles, such as natural gas, electric, or fuel cell powered vehicles

*This staff analysis is provided to address various administrative, cost, revenue and policy issues; it is not to be construed to reflect or suggest the Board's formal position.*

emit significantly lower levels of emissions. The partial sales and use tax exemption provided by this bill would reduce the costs of replacing diesel powered vehicles with cleaner fuel vehicles, which could help decrease air pollution.

4. Definition of terms needed. The proposed exemption would apply to the sale or use of any natural gas, electric, or fuel cell powered bus or truck used exclusively in public transit service, school bus service, or public works service, provided certain conditions are met. The proposed exemption does not define what type of vehicles would qualify as a public works truck or a bus used for school bus service or public transit. For example, it is assumed that a garbage truck used by a city to provide waste removal services would qualify as a public works truck, but would it also include a small pickup used as transportation for workers who clear clogged storm drains? It is recommended that a definition of what types of vehicles would qualify be included.
5. Exemption would complicate retailers' reporting responsibilities. The bill would exempt only the state portion of the sales tax rate. Under the current structure of the Sales and Use Tax Law, there are two exemptions from the sales and use tax where the local and district taxes remain applicable (Section 6377 and Section 6378). The types of retailers affected by this bill most likely have not dealt with the two partial exemptions currently allowed by law. Therefore, additional retailers would be burdened with additional record keeping and segregations which would be required for purposes of reporting the correct amount of sales and use tax and any applicable transactions and use taxes. These segregations have the possibility of increasing reporting errors and confusion. However, the number of retailers expected to be affected by this proposal is small.
6. DMV would also be affected by this bill. Sales and purchases of vehicles are generally subject to either the sales tax or the use tax. Generally, the sales tax applies when the vehicle is purchased from a dealer located in this state. The use tax generally applies whenever the sales tax does not apply, such as when a used vehicle is purchased from a private party.

When the sales tax applies, the dealer owes that tax and remits it to the Board of Equalization, generally collecting an amount as "sales tax" to reimburse itself for the cost of the sales tax. When the use tax applies, the purchaser pays the use tax to the DMV, as the agent of the Board, when registering the vehicle.

The partial tax exemption proposed by this bill would require dealers selling vehicles that are subject to the partial exemption to maintain documentation to support the exemption and also require separate accounting and reporting for sales subject to the partial exemption. Additionally, the DMV would also be affected in situations where the partial tax exemption would apply, but the tax is being paid directly to the DMV rather than the selling dealer.

7. Related legislation. AB 1884 (Lowenthal), as amended on May 10, 2000, would provide a 5 percent state sales and use tax exemption for the sale and purchase of any public safety vehicle purchased by a city, county, city and county, or district responsible for public safety.

*This staff analysis is provided to address various administrative, cost, revenue and policy issues; it is not to be construed to reflect or suggest the Board's formal position.*

**COST ESTIMATE:**

The workload impact to implement the provisions of this bill is unknown because of the unknown number of affected potential retailers. Some costs would be incurred in notifying affected retailers, answering inquiries, revising appropriate tax return forms and instructions, and verifying the partial exemption.

**REVENUE ESTIMATE:**

This bill provides an exemption for public transit buses, school buses and public works trucks until January 1, 2010. The exemption applies to any natural gas, electric or fuel cell powered buses and trucks used exclusively in public transit, school bus or public works services. Although the bill clearly specifies the type of buses, i.e. public transit and school buses, it does not specify the size of the buses. The bill also does not define the term 'public works truck'. For the purposes of this revenue estimate, only full size transit and school buses are considered. Regarding public works trucks, medium to heavy-duty trucks are considered.

Public Transit & School Buses

According to the State Air Resources Board, there are currently no electric or fuel cell powered buses used in school services. In relation to public transit services, smaller electric buses, similar to shuttles are in use. And during the next 3 to 5 years, there are plans to purchase 8 fuel cell powered buses for demonstration purposes.

The Air Resources Board estimates that, on average, 300 full size natural gas buses are purchased annually for transit services at a unit price of \$340,000. This amounts to \$102 million. Further, each fuel cell bus would cost \$1.5 million each, amounting to \$12 million. Overall expenditure on buses for transit services amounts to \$114 million.

The air board also estimates that 50 full size natural gas buses are purchased for school services at a unit price of \$135,000, amounting to \$6.8 million. Overall expenditure for both transit and school buses amounts to a total of \$120.8 million annually.

Public Works Trucks

The California National Gas Vehicle (NGV) Coalition, a non-profit corporation dedicated to promoting clean transportation technology and the use of natural gas vehicles, estimates that, on average, 150 'refuse' trucks are purchased annually at a unit price of \$130,000. This amounts to \$19.5 million. It also estimates that, on average, 30 'sweeper' trucks are purchased annually at a unit price of \$90,000, amounting to \$2.7 million. Apart from these two groups, the Coalition estimates that there are 250 'other public works trucks' such as utility and street maintenance trucks that are purchased annually at a unit price of \$90,000. This amounts to \$22.5 million. Overall expenditure for public works trucks amounts to a total of \$44.7 million.

Overall expenditure for public transit buses, school buses and public work trucks amounts to a total of \$165.5 million annually.

*This staff analysis is provided to address various administrative, cost, revenue and policy issues; it is not to be construed to reflect or suggest the Board's formal position.*

Revenue Summary

The revenue impact from exempting the \$165.5 million in purchases of natural gas, electric or fuel cell powered buses and trucks used exclusively in public transit, school bus or public works services from the 6% state sales and use tax would be as follows:

	<u>Revenue Loss</u>
State loss (5%)	\$8.3 million
Public Safety Fund (0.5%)	0.8 million
Local Revenue Fund (0.5%)	<u>0.8 million</u>
Total	<u><u>\$9.9 million</u></u>

Analysis prepared by:	Bradley E. Miller	445-6662	06/22/00
Revenue estimate by:	Ronil Dwarka	445-0840	
Contact:	Margaret S. Shedd	322-2376	

*This staff analysis is provided to address various administrative, cost, revenue and policy issues; it is not to be construed to reflect or suggest the Board's formal position.*